

Ann M. Menke

Certified Public Accountant
A Professional Corporation

CITY OF LONE TREE

**INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTAL INFORMATION
SCHEDULE OF FINDINGS**

JUNE 30, 2010

Table of Contents

| | | |
|---|-----------------|-------|
| | <u>Page</u> | |
| Officials | 3 | |
| Independent Auditor's Report | | 4-5 |
| Basic Financial Statements: | <u>Exhibit</u> | |
| Government-wide Financial Statement: | | |
| Statement of Activities and Net Assets – Cash Basis | A | 7 |
| Governmental Fund Financial Statement: | | |
| Statement of Cash Receipts, Disbursements and Changes in Cash Balances | B | 8 |
| Proprietary Fund Financial Statement: | | |
| Statement of Cash Receipts, Disbursements and Changes in Cash Balances | C | 9 |
| Notes to Financial Statements | | 10-17 |
| Required Supplementary Information: | | |
| Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances – Budget and Actual (Cash Basis) – All Governmental Funds and Proprietary Funds | | 19 |
| Notes to Required Supplementary Information – Budgetary Reporting | | 20 |
| Other Supplementary Information: | <u>Schedule</u> | |
| Statement of Cash Receipts, Disbursements, and Changes in Cash Balances – Nonmajor Governmental Funds | 1 | 22 |
| Statement of Cash Receipts, Disbursements, and Changes in Cash Balances – Nonmajor Proprietary Funds | 2 | 23 |
| Schedule of Indebtedness | 3 | 24 |
| Bond and Note Maturities | 4 | 25 |
| Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <u>Government Auditing Standards</u> | | 26-27 |
| Schedule of Findings | | 28-32 |
| Staff | | 33 |

City of Lone Tree

Officials

| <u>Name</u> | <u>Title</u> | <u>Term Expires</u> |
|------------------------------|----------------|---------------------|
| (Before January 2010) | | |
| Rick Ogren | Mayor | January 1, 2012 |
| Carl Kice Brown | Council Member | January 1, 2010 |
| Helen Lemley | Council Member | January 1, 2010 |
| Alyssa Coppinger | Council Member | January 1, 2010 |
| Sandra Brown | Council Member | January 1, 2012 |
| Mary Larson | Council Member | January 1, 2012 |
| (After January 2010) | | |
| Rick Ogren | Mayor | January 1, 2012 |
| Sandra Brown | Council Member | January 1, 2012 |
| Mary Larson | Council Member | January 1, 2012 |
| Carl Kice Brown | Council Member | January 1, 2014 |
| Alyssa Coppinger | Council Member | January 1, 2014 |
| Helen Lemley | Council Member | January 1, 2014 |
| Merry Thomae | City Clerk | Appointed |
| Stephen N. Greenleaf | City Attorney | Appointed |

CITY OF LONE TREE

Ann M. Menke

**Certified Public Accountant
A Professional Corporation**

Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council
Lone Tree, Iowa

I have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Lone Tree, Iowa, as of and for the year ended June 30, 2010, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City of Lone Tree's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinions.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Also, as permitted by the Code of Iowa, the accounting records of the City have not been audited for all prior years. Accordingly, I was unable to satisfy myself as to the distribution by fund of the total fund balance at July 1, 2009.

In my opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had I been able to verify the distribution by fund of the total fund balance at July 1, 2009, as discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Lone Tree as of June 30, 2010, and the respective changes in cash basis financial position for year then ended in conformity with the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, I have also issued my report dated March 1, 2011 on my consideration of the City of Lone Tree's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of my audit.

Budgetary comparison information on page 19 is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. I applied limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. I did not audit the information and express no opinion on it.

The City of Lone Tree, Iowa has not presented Management's Discussion and Analysis that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the basic financial statements.

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Lone Tree's basic financial statements. Other supplementary information included in Schedules 1 through 4 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in my audit of the basic financial statements and, in my opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Sincerely,



Ann M. Menke
Certified Public Accountant
Professional Corporation
March 1, 2011

FINANCIAL STATEMENTS

City of Lone Tree
Statement of Activities and Net Assets - Cash Basis
For the Year Ended June 30, 2010

| | Disbursements | Charges for Service | Program Receipts | |
|---|-------------------|---------------------|--|--|
| | | | Operating Grants Contributions and Restricted Interest | Capital Grants Contributions and Restricted Interest |
| Functions / Programs: | | | | |
| Governmental activities: | | | | |
| Public safety | \$ 80,689 | \$ 2,032 | \$ - | \$ - |
| Public works | 166,901 | 16,813 | 107,006 | - |
| Health and social services | 77,293 | - | 54,229 | - |
| Culture and recreation | 50,505 | 11,610 | - | - |
| Community and economic development | 8,867 | - | 600 | - |
| General government | 75,328 | 1,325 | - | - |
| Debt service | 142,251 | - | 41 | - |
| Capital projects | 62,228 | - | - | - |
| Total governmental activities | <u>664,062</u> | <u>31,780</u> | <u>161,876</u> | <u>-</u> |
| Business type activities | | | | |
| Garbage | 26,611 | 36,480 | - | - |
| Water | 132,355 | 152,104 | - | - |
| Sewer | 109,196 | 103,579 | - | - |
| Total business type activities | <u>268,162</u> | <u>292,163</u> | <u>-</u> | <u>-</u> |
| Total | <u>\$ 932,224</u> | <u>\$ 323,943</u> | <u>\$ 161,876</u> | <u>\$ -</u> |
| General Receipts: | | | | |
| Property tax levied for: | | | | |
| General purposes | | | | |
| Debt Service | | | | |
| Tax increment financing | | | | |
| Local option sales tax | | | | |
| Grants and contributions not restricted to specific purpose | | | | |
| Unrestricted interest on investments | | | | |
| Bond proceeds | | | | |
| Miscellaneous | | | | |
| Transfers | | | | |
| Total general receipts and transfers | | | | |
| Change in cash basis net assets | | | | |
| Cash basis net assets beginning of year | | | | |
| Cash basis net assets end of year | | | | |
| Cash Basis Net Assets | | | | |
| Restricted: | | | | |
| Debt service | | | | |
| Sewer | | | | |
| Unrestricted | | | | |
| Total cash basis net assets | | | | |

| Net (Disbursements) Receipts and Changes in Cash Basis Net Assets | | |
|--|-----------------------------|--------------|
| Governmental Activities | Business Type Activities | Total |
| \$ (78,657) | \$ - | \$ (78,657) |
| (43,082) | - | (43,082) |
| (23,064) | - | (23,064) |
| (38,895) | - | (38,895) |
| (8,267) | - | (8,267) |
| (74,003) | - | (74,003) |
| (142,210) | - | (142,210) |
| (62,228) | - | (62,228) |
| (470,406) | - | (470,406) |
| - | 9,869 | 9,869 |
| - | 19,749 | 19,749 |
| - | (5,617) | (5,617) |
| - | 24,001 | 24,001 |
| (470,406) | 24,001 | (446,405) |
| 200,523 | - | 200,523 |
| 48,576 | - | 48,576 |
| 206,424 | - | 206,424 |
| 106,000 | - | 106,000 |
| 2,737 | - | 2,737 |
| 4,101 | 1,717 | 5,818 |
| 725,000 | - | 725,000 |
| 16,859 | - | 16,859 |
| 25,338 | (25,338) | - |
| 1,335,558 | (23,621) | 1,311,937 |
| 865,152 | 380 | 865,532 |
| 293,077 | 332,613 | 625,690 |
| \$ 1,158,229 | \$ 332,993 | \$ 1,491,222 |
| 7,860 | 13,281 | 21,141 |
| - | 30,800 | 30,800 |
| 1,150,369 | 288,912 | 1,439,281 |
| \$ 1,158,229 | \$ 332,993 | \$ 1,491,222 |

See notes to financial statements.

City of Lone Tree
Statement of Cash Receipts, Disbursements and Changes in Cash Balances
Governmental Funds
As of and for the Year Ended June 30, 2010

| | General | Road Use Tax | Debt Service | Other Non Major Governmental Funds | Total |
|------------------------------------|-------------------|--------------------|-----------------|---|---------------------|
| Receipts: | | | | | |
| Property tax | \$ 200,523 | \$ - | \$ 48,576 | \$ - | \$ 249,099 |
| TIF revenues | - | - | - | 206,424 | 206,424 |
| Other city taxes | 9,120 | - | - | 106,000 | 115,120 |
| Licenses and permits | 16,813 | - | - | - | 16,813 |
| Use of money and property | 16,347 | - | 41 | - | 16,388 |
| Intergovernmental | 600 | 107,006 | - | 54,229 | 161,835 |
| Charges for services | 10,725 | - | - | 1,645 | 12,370 |
| Miscellaneous | 827 | - | - | - | 827 |
| Total receipts | <u>254,955</u> | <u>107,006</u> | <u>48,617</u> | <u>368,298</u> | <u>778,876</u> |
| Disbursements: | | | | | |
| Operating: | | | | | |
| Public safety | 80,689 | - | - | - | 80,689 |
| Public works | 20,410 | 146,491 | - | - | 166,901 |
| Health and social services | 23,064 | - | - | 54,229 | 77,293 |
| Culture and recreation | 50,505 | - | - | - | 50,505 |
| Community and economic development | 4,297 | - | - | 4,570 | 8,867 |
| General government | 75,078 | - | - | 250 | 75,328 |
| Debt service | - | - | 142,251 | - | 142,251 |
| Capital projects | - | - | - | 62,228 | 62,228 |
| Total disbursements | <u>254,043</u> | <u>146,491</u> | <u>142,251</u> | <u>121,277</u> | <u>664,062</u> |
| (Deficiency) excess of receipts | | | | | |
| (Under) over disbursements | 912 | (39,485) | (93,634) | 247,021 | 114,814 |
| Other financing sources (uses) | | | | | |
| Proceeds of long-term debt | - | - | - | 725,000 | 725,000 |
| Operating transfers in | 97,154 | 47,555 | 98,819 | - | 243,528 |
| Operating transfers out | - | - | - | (218,190) | (218,190) |
| Total other financing sources | <u>97,154</u> | <u>47,555</u> | <u>98,819</u> | <u>506,810</u> | <u>750,338</u> |
| Net change in cash balances | 98,066 | 8,070 | 5,185 | 753,831 | 865,152 |
| Cash balances beginning of year | 64,506 | 43,121 | 2,675 | 182,775 | 293,077 |
| Cash balances end of year | <u>\$ 162,572</u> | <u>\$ 51,191</u> | <u>\$ 7,860</u> | <u>\$ 936,606</u> | <u>\$ 1,158,229</u> |
| Cash Basis Fund Balances | | | | | |
| Reserved: | | | | | |
| Debt service | \$ - | \$ - | \$ 7,860 | \$ - | \$ 7,860 |
| Unreserved: | | | | | |
| General fund | 162,572 | - | - | - | 162,572 |
| Special revenue fund | - | - | - | 199,292 | 199,292 |
| Capital projects fund | - | 51,191 | - | 662,772 | 713,963 |
| Permanent fund | - | - | - | 74,542 | 74,542 |
| Total cash basis fund balances | <u>\$ 162,572</u> | <u>\$ 51,191</u> | <u>\$ 7,860</u> | <u>\$ 936,606</u> | <u>\$ 1,158,229</u> |

See notes to financial statements.

City of Lone Tree
Statement of Cash Receipts, Disbursements and Changes in Cash Balances
Proprietary Funds

As of and for the Year Ended June 30, 2010

| | Enterprise Funds | | | Total |
|---|-------------------|-------------------|--|-------------------|
| | Water | Sewer | Other Non Major Proprietary Funds | |
| Operating receipts: | | | | |
| Use of money and property | \$ 281 | \$ 1,436 | \$ - | \$ 1,717 |
| Charges for services | 152,104 | 103,579 | 36,480 | 292,163 |
| Total receipts | <u>152,385</u> | <u>105,015</u> | <u>36,480</u> | <u>293,880</u> |
| Operating disbursements: | | | | |
| Business type activities | 132,355 | 109,196 | 26,611 | 268,162 |
| Total operating disbursements | <u>132,355</u> | <u>109,196</u> | <u>26,611</u> | <u>268,162</u> |
| (Deficiency) excess of operating receipts (under) over operating disbursements | 20,030 | (4,181) | 9,869 | 25,718 |
| Other financing sources (uses) | | | | |
| Operating transfers out | (25,338) | - | - | (25,338) |
| Total other financing sources | <u>(25,338)</u> | <u>-</u> | <u>-</u> | <u>(25,338)</u> |
| Net change in cash balances | (5,308) | (4,181) | 9,869 | 380 |
| Cash balances beginning of year | 162,784 | 166,528 | 3,301 | 332,613 |
| Cash balances end of year | <u>\$ 157,476</u> | <u>\$ 162,347</u> | <u>\$ 13,170</u> | <u>\$ 332,993</u> |
| Cash Basis Fund Balances | | | | |
| Reserved for debt service | \$ 13,281 | \$ - | \$ - | \$ 13,281 |
| Reserved for maintenance and repairs | - | 30,800 | - | 30,800 |
| Unreserved | 144,195 | 131,547 | 13,170 | 288,912 |
| Total cash basis fund balances | <u>\$ 157,476</u> | <u>\$ 162,347</u> | <u>\$ 13,170</u> | <u>\$ 332,993</u> |

See notes to financial statements.

City of Lone Tree
Notes to Financial Statements
For the Year Ended June 30, 2010

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Lone Tree is a political subdivision of the State of Iowa located in Johnson County. It was first incorporated in 1872 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council members elected on a non-partisan basis. The City provides numerous services to citizens including public safety, public works, culture and recreation, community and economic development, and general government services. The City also provides water, sewer and garbage utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Lone Tree has included all funds, organizations, agencies, boards, commissions, and authorities. The City has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific burdens on the City. The City of Lone Tree has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations

The City also participates in several jointly governed organizations that provide goods or services to the citizens of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Johnson County Emergency Management, Johnson County Housing Task Force, and the League of Iowa Cities.

Joint Ventures

The City participates in two joint ventures that provide goods or services to the citizens of the City and meet the criteria of a joint venture since there is an ongoing financial interest or responsibility by the participating governments. The City is a member of the following joint ventures: Fremont-Lincoln-Pleasant Valley Fire Association (Note 8) and the Lone Tree Library (Note 9).

City of Lone Tree
Notes to Financial Statements
For the Year Ended June 30, 2010

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Basis of Presentation

Government-wide Financial Statement – The statement of Activities and Net Assets reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for service.

The Statement of Activities and Net Assets presents the City's nonfiduciary net assets. Net assets are reported in the following categories/components:

Nonexpendable restricted net assets are subject to externally imposed stipulations which require them to be maintained permanently by the City, including the City's Permanent Fund.

Expendable restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net not meeting the definition of the preceding categories. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

The Statement of Activities and Net Assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements – Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental and enterprise funds are aggregated and reported as nonmajor governmental or proprietary funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges, and the capital improvement costs that are not paid from other funds.

City of Lone Tree
Notes to Financial Statements
For the Year Ended June 30, 2010

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Special Revenue:

The Road Use Tax Fund is used to account for road construction and maintenance.

The Debt Service Fund is utilized to account for the payment of interest and principal of the City's general long-term debt.

The City reports the following major proprietary funds:

The Enterprise, Water Fund accounts for the operation and maintenance of the City's water system.

The Enterprise, Sewer Fund accounts for the operation and maintenance of the City's waste water treatment and sanitary sewer system.

C. Measurement Focus and Basis of Accounting

The City of Lone Tree maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable, and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with accounting principles generally accepted in the United States of America.

Under terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general receipts. Thus, when program disbursements are paid there are both restricted and unrestricted cash basis net assets available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general receipts.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2010, disbursements exceeded the amounts budgeted in the public safety and public works, prior to adoption of the amended budget.

City of Lone Tree
Notes to Financial Statements
For the Year Ended June 30, 2010

NOTE 2 – CASH AND POOLED INVESTMENTS

The City's deposits in banks at June 30, 2010 were entirely covered by Federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district. The city had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No. 40.

Interest rate risk – The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the needs and use of the City.

NOTE 3 – BONDS AND NOTES PAYABLE

Annual debt service requirements to maturity for the revenue bonds and notes and bank notes are as follows:

| Year Ending June 30, | General Obligation Bond | | Revenue Notes | | Bank Notes | | Total | |
|-------------------------|-------------------------|------------------|-------------------|------------------|-------------------|------------------|---------------------|-------------------|
| | Principal | Interest | Principal | Interest | Principal | Interest | Principal | Interest |
| 2011 | 104,000 | 50,913 | 20,000 | 5,720 | 20,000 | 6,880 | 144,000 | 63,513 |
| 2012 | 112,000 | 42,712 | 20,000 | 5,070 | 21,000 | 6,060 | 153,000 | 53,842 |
| 2013 | 115,000 | 39,762 | 21,000 | 4,420 | 21,000 | 5,220 | 157,000 | 49,402 |
| 2014 | 117,000 | 36,739 | 22,000 | 3,738 | 22,000 | 4,360 | 161,000 | 44,837 |
| 2015 | 125,000 | 33,274 | 22,000 | 3,023 | 23,000 | 3,460 | 170,000 | 39,757 |
| 2016-20 | 494,000 | 108,373 | 71,000 | 4,648 | 75,000 | 4,580 | 640,000 | 117,601 |
| 2021-25 | 290,000 | 40,275 | - | - | - | - | 290,000 | 40,275 |
| Total | <u>\$ 1,357,000</u> | <u>\$352,048</u> | <u>\$ 176,000</u> | <u>\$ 26,619</u> | <u>\$ 182,000</u> | <u>\$ 30,560</u> | <u>\$ 1,715,000</u> | <u>\$ 409,227</u> |

The Code of Iowa requires principal and interest on general obligation bonds be paid from the Debt Service Fund.

City of Lone Tree
Notes to Financial Statements
For the Year Ended June 30, 2010

NOTE 3 – BONDS AND NOTES PAYABLE (Continued)

Revenue Notes

The City has pledged future water customer receipts, net of specified operating disbursements, to repay \$176,000 of water revenue notes issued in August 2003. Proceeds from the notes provided financing for the construction of improvements to the water plant and extensions. The notes are payable solely from water customer net receipts and are payable through 2018. Annual principal and interest payments on the notes are expected to require less than 17 percent of net receipts. The total principal and interest remaining to be paid on the notes is \$202,619. For the current year, principal and interest paid and total customer net receipts were \$25,338 and \$152,104, respectively.

The resolutions providing for the issuance of the revenue notes include the following provisions.

- (a) The notes will only be redeemed from the future earnings of the enterprise activity and the Note holders hold a lien on the future earnings of the funds.
- (b) Sufficient monthly transfers shall be made to a separate water revenue note sinking account within the Enterprise Funds for the purpose of making the note principal and interest payments when due.

NOTE 4 – PENSION AND RETIREMENT BENEFITS

The City contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Most regular plan members are required to contribute 4.30% of their annual covered salary and the City is required to contribute 6.65% of covered salary, except for police employees in which case, percentages are 6.14% and 9.20%, respectively. Contribution requirements are established by state statute. The City's contribution to IPERS for the year ended June 30, 2010 was \$18,548, equal to the required contribution for the year.

City of Lone Tree
Notes to Financial Statements
For the Year Ended June 30, 2010

NOTE 5 – OTHER POSTEMPLOYMENT BENEFITS (OPEB)

Plan Description - The City operates a single-employer retiree benefit plan which provides medical/prescription drug benefits for retirees and their spouses. There are 3 active members in the plan. Participants must be age 55 or older at retirement.

The medical/prescription drug benefits are provided through a fully-insured plan with Wellmark. Retirees under age 65 pay the same premium for the medical/prescription drug benefits as active employees. Retirees who choose to remain on the plan are required to pay the full cost of the premium to the City each month. The City then remits those premiums to Wellmark.

Funding Policy - The contribution requirements of plan members are established and may be amended by the City. The City currently finances the retiree benefit plan on a pay-as-you-go basis. The most recent active member monthly premiums for the City and plan members are \$1,080 for family coverage. The same monthly premiums apply to retirees. For the year ended June 30, 2010, the City contributed \$38,880 to the plan.

NOTE 6 – RISK MANAGEMENT

The City of Lone Tree is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE 7 – COMPENSATED ABSENCES

City employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use or for payment upon termination, retirement or death. Sick leave benefits are not paid upon termination, retirement, or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation and sick leave payable to employees at June 30, 2010, primarily relating to the General Fund, is as follows:

| Type of Benefit | Amount |
|-----------------|------------------|
| Vacation | \$ 5,218 |
| Sick leave | 11,234 |
| Personal | <u>1,354</u> |
| Total | <u>\$ 17,806</u> |

This liability has been computed based on rates of pay in effect at June 30, 2010.

City of Lone Tree
Notes to Financial Statements
For the Year Ended June 30, 2010

NOTE 8 – FREMONT-LINCOLN-PLEASANT VALLEY FIRE ASSOCIATION

The City, along with the Fremont Township, Lincoln Township, and Pleasant Valley Township (the Townships) has formed the Fremont-Lincoln-Pleasant Valley Fire Association (the Association). The Association establishes terms for sharing operating expenses and joint use of equipment and facilities, so that the members can efficiently provide fire protection and emergency medical services to the citizens of the City and the Townships. The City is required to pay 48% of the annual expenses and the Townships are required to pay 52% of the expenses. The agreement continues automatically unless terminated by any party by giving notice in writing to the other parties ninety days in advance of the required termination date. The City of Lone Tree remitted \$38,760 for the year ended June 30, 2010. Financial statements for the Association can be obtained by contacting the Clerk of the City of Lone Tree.

NOTE 9 – LONE TREE LIBRARY

The City of Lone Tree and the Lone Tree Board of Education (the Board) entered into an agreement to provide library service to the residents of Lone Tree. The City remits an annual amount that the Board retains in the library budget to be used for wages and benefits of the library assistants hired by the Board to maintain library services beyond those of a normal school day. The Library Advisory Committee oversees the operation of the library and the Board. The agreement continues until either the Board or the City votes to terminate the agreement by providing notice in writing at least sixty days prior to the end of the fiscal year. The City of Lone Tree remitted \$8,474 to the Board for the year ended June 30, 2010. Financial statements of the Board may be obtained by contacting their office.

NOTE 10 – INTERFUND TRANSFERS

The detail of the interfund transfers for the year ended June 30, 2010 is as follows:

| <u>Transfer to</u> | <u>Transfer from</u> | <u>Amount</u> |
|----------------------|----------------------|-------------------|
| Debt Service | Special Revenue: TIF | \$ 73,481 |
| | Enterprise: Water | 25,338 |
| | | <u>98,819</u> |
| General | Special Revenue: TIF | <u>97,154</u> |
| Special Revenue: TIF | Road Use Tax | <u>47,555</u> |
| Total | | <u>\$ 243,528</u> |

City of Lone Tree
Notes to Financial Statements
For the Year Ended June 30, 2010

NOTE 11 – COMMITMENTS

The City of Lone Tree entered into a contract with the County of Johnson, Iowa. The County, through the Johnson County Sheriff's office, will supply police protection to the City. The City paid the County \$41,929 for these services. The contract may be terminated by either party by providing six months written notice.

The City of Lone Tree entered into a 28E agreement with the County of Johnson, Iowa. The County shall provide to Lone Tree, through the Johnson County SEATS, transit service for the Lone Tree Congregate meal program. The City paid \$7,100 for these services in the year ended June 30, 2010. Either party may terminate this agreement, in whole or in part, upon thirty days written notice.

On November 25, 2003 the City of Lone Tree entered into a 28E road maintenance agreement with the County of Johnson, Iowa for maintenance of roads where the City annexed certain property which will access onto the roads and right-of-ways mentioned in the agreement. The agreement sets forth the division of maintenance responsibility. This agreement shall be in effect for ten years.

The City of Lone Tree entered into a 28E agreement with the Lone Tree Community School District to provide transportation to a public swimming facility in the summer months. The City is to pay for the wages of the driver. The City of Lone Tree paid \$361 for these services for the year ended June 30, 2010. This agreement terminated as of August 11, 2010.

The City of Lone Tree entered into a 28E agreement with the Lone Tree Community Schools to provide the City with facilities for the purpose of public access to cable television. The City is responsible for purchase of all equipment. The agreement may be terminated by written mutual consent of both parties.

NOTE 12 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through March 1, 2011, the date which the financial statements were available for issue.

REQUIRED SUPPLEMENTARY INFORMATION

City of Lone Tree
Budgetary Comparison Schedule
of Receipts, Disbursements and Changes in Balances -
Budget and Actual (Cash Basis) - All Governmental Funds and Proprietary Funds
Required Supplementary Information
Year Ended June 30, 2010

| | Governmental Funds Actual | Proprietary Funds Actual | Net |
|---|---------------------------------|--------------------------------|---------------------|
| Receipts | | | |
| Property tax | \$ 249,099 | \$ - | \$ 249,099 |
| Tax increment financing collections | 206,424 | - | 206,424 |
| Other city taxes | 115,120 | - | 115,120 |
| Licenses and permits | 16,813 | - | 16,813 |
| Use of money and property | 16,388 | 1,717 | 18,105 |
| Intergovernmental | 161,835 | - | 161,835 |
| Charges for services | 12,370 | 292,163 | 304,533 |
| Miscellaneous | 827 | - | 827 |
| Total receipts | <u>778,876</u> | <u>293,880</u> | <u>1,072,756</u> |
| Disbursements | | | |
| Public safety | 80,689 | - | 80,689 |
| Public works | 166,901 | - | 166,901 |
| Health and social services | 77,293 | - | 77,293 |
| Culture and recreation | 50,505 | - | 50,505 |
| Community and economic development | 8,867 | - | 8,867 |
| General government | 75,328 | - | 75,328 |
| Debt service | 142,251 | - | 142,251 |
| Capital projects | 62,228 | - | 62,228 |
| Business type activities | - | 268,162 | 268,162 |
| Total disbursements | <u>664,062</u> | <u>268,162</u> | <u>932,224</u> |
| Excess of receipts over disbursements | 114,814 | 25,718 | 140,532 |
| Other financing sources, net | <u>750,338</u> | <u>(25,338)</u> | <u>725,000</u> |
| Excess of receipts and other financing sources over disbursements and other financing uses | 865,152 | 380 | 865,532 |
| Balance, beginning of year | <u>293,077</u> | <u>332,613</u> | <u>625,690</u> |
| Balance, end of year | <u>\$ 1,158,229</u> | <u>\$ 332,993</u> | <u>\$ 1,491,222</u> |

| Budgeted Amounts | | Final to |
|-------------------|-------------------|---------------------|
| Original | Final | Net |
| | | Variance |
| \$ 244,297 | \$ 244,297 | \$ 4,802 |
| 191,052 | 198,608 | 7,816 |
| 10,767 | 120,160 | (5,040) |
| 8,900 | 11,846 | 4,967 |
| 16,882 | 15,618 | 2,487 |
| 171,974 | 177,837 | (16,002) |
| 289,184 | 306,884 | (2,351) |
| - | - | 827 |
| <u>933,056</u> | <u>1,075,250</u> | <u>(2,494)</u> |
| 72,153 | 80,874 | 185 |
| 137,841 | 174,813 | 7,912 |
| 87,970 | 87,970 | 10,677 |
| 40,074 | 50,600 | 95 |
| 12,784 | 13,681 | 4,814 |
| 108,820 | 115,162 | 39,834 |
| 146,282 | 146,282 | 4,031 |
| 467,000 | 723,028 | 660,800 |
| 260,039 | 276,704 | 8,542 |
| <u>1,332,963</u> | <u>1,669,114</u> | <u>736,890</u> |
| (399,907) | (593,864) | (739,384) |
| <u>467,000</u> | <u>723,028</u> | <u>(1,972)</u> |
| 67,093 | 129,164 | (741,356) |
| <u>528,065</u> | <u>625,690</u> | <u>0</u> |
| <u>\$ 595,158</u> | <u>\$ 754,854</u> | <u>\$ (741,356)</u> |

See accompanying independent auditor's report.

City of Lone Tree
Notes to Required Supplementary Information – Budgetary Reporting
June 30, 2010

The budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except Internal Service Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Fund, the Permanent Fund and the Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted revenues by \$142,194 and budgeted disbursements by \$336,151. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2010, disbursements exceeded the amounts budgeted in the public safety and public works functions prior to adoption of the amended budget.

OTHER SUPPLEMENTARY INFORMATION

City of Lone Tree
Statement of Cash Receipts, Disbursements and Changes in Cash Balances
Nonmajor Governmental Funds
As of and for the Year Ended June 30, 2010

| | | Special Revenue | | |
|----------------------------------|-------------------|------------------------|-----------------------------|---------------|
| | Capital Projects | Local Option Sales Tax | Urban Renewal Tax Increment | Senior Dining |
| Receipts: | | | | |
| Property Tax | \$ - | \$ - | \$ - | \$ - |
| TIF revenues | - | - | 206,424 | - |
| Other city taxes | - | 106,000 | - | - |
| Intergovernmental | - | - | - | 54,229 |
| Charges for service | - | - | - | - |
| Total receipts | <u>-</u> | <u>106,000</u> | <u>206,424</u> | <u>54,229</u> |
| Disbursements: | | | | |
| Operating: | | | | |
| Health and social services | - | - | - | 54,229 |
| Community and economic Developme | - | - | 4,570 | - |
| General government | - | - | - | - |
| Capital projects | 62,228 | - | - | - |
| Total disbursements | <u>62,228</u> | <u>-</u> | <u>4,570</u> | <u>54,229</u> |
| (Deficiency) excess of receipts | | | | |
| (Under) over disbursements | (62,228) | 106,000 | 201,854 | - |
| Other financing sources (uses) | | | | |
| Proceeds of long-term debt | 725,000 | - | - | - |
| Operating transfers out | - | - | (218,190) | - |
| Total other financing sources | <u>725,000</u> | <u>-</u> | <u>(218,190)</u> | <u>-</u> |
| Net change in cash balances | 662,772 | 106,000 | (16,336) | - |
| Cash balances beginning of year | - | - | 109,628 | - |
| Cash balances end of year | <u>\$ 662,772</u> | <u>\$ 106,000</u> | <u>\$ 93,292</u> | <u>\$ -</u> |
| Cash Basis Fund Balances | | | | |
| Unreserved: | | | | |
| Special revenue fund | \$ - | \$ 106,000 | \$ 93,292 | \$ - |
| Capital projects fund | 662,772 | - | - | - |
| Permanent fund | - | - | - | - |
| Total cash basis fund balances | <u>\$ 662,772</u> | <u>\$ 106,000</u> | <u>\$ 93,292</u> | <u>\$ -</u> |

| Permanent | | |
|-------------------------------|-------------------|-------------------|
| Cemetery Perpetual Care | Meter Deposits | Total |
| \$ - | \$ - | \$ - |
| - | - | 206,424 |
| - | - | 106,000 |
| - | - | 54,229 |
| 320 | 1,325 | 1,645 |
| <u>320</u> | <u>1,325</u> | <u>368,298</u> |
| - | - | 54,229 |
| - | - | 4,570 |
| - | 250 | 250 |
| - | - | 62,228 |
| <u>-</u> | <u>250</u> | <u>121,277</u> |
| 320 | 1,075 | 247,021 |
| - | - | 725,000 |
| - | - | (218,190) |
| <u>-</u> | <u>-</u> | <u>(218,190)</u> |
| 320 | 1,075 | 28,831 |
| 50,503 | 22,644 | 182,775 |
| <u>\$ 50,823</u> | <u>\$ 23,719</u> | <u>\$ 211,606</u> |
| \$ - | \$ - | \$ 199,292 |
| - | - | 662,772 |
| 50,823 | 23,719 | 74,542 |
| <u>\$ 50,823</u> | <u>\$ 23,719</u> | <u>\$ 936,606</u> |

See accompanying independent auditor's report.

City of Lone Tree
Statement of Cash Receipts, Disbursements and Changes in Cash Balances
Nonmajor Proprietary Funds
As of and for the Year Ended June 30, 2010

| | <u>Enterprise Funds</u> | |
|---------------------------------|-------------------------|------------------|
| | <u>Garbage</u> | <u>Total</u> |
| Operating receipts: | | |
| Charges for service | \$ 36,480 | \$ 36,480 |
| Total receipts | <u>36,480</u> | <u>36,480</u> |
| Operating disbursements: | | |
| Business type activities | <u>26,611</u> | <u>26,611</u> |
| Total disbursements | <u>26,611</u> | <u>26,611</u> |
| (Deficiency) excess of receipts | | |
| (Under) over disbursements | 9,869 | 9,869 |
| Cash balances beginning of year | <u>3,301</u> | <u>3,301</u> |
| Cash balances end of year | <u>\$ 13,170</u> | <u>\$ 13,170</u> |
| Cash Basis Fund Balances | | |
| Unreserved | <u>\$ 13,170</u> | <u>\$ 13,170</u> |
| Total cash basis fund balances | <u>\$ 13,170</u> | <u>\$ 13,170</u> |

See accompanying independent auditor's report.

City of Lone Tree
Schedule of Indebtedness
For the Year Ended June 30, 2010

| Obligation | Date of Issue | Interest Rates | Amount Originally Issued |
|--|------------------|-------------------|--------------------------------|
| General obligation bonds | | | |
| Sewer improvements | March 3, 1999 | 3.00% | \$ 1,021,000 |
| Water improvements | August 7, 2003 | 3.00% | 400,000 |
| Street improvements | March 15, 2010 | 1.75%-4.50% | 725,000 |
| Total | | | |
| Revenue notes | | | |
| Water | August 7, 2003 | 3.00% | 300,000 |
| Bank Loan | | | |
| Street and storm sewer improvements | October 6, 2003 | 4.00% | 300,000 |

| Balance Beginning of Year | Issued During Year | Redeemed During Year | Balance End of Year | Interest Paid | Interest Due and Unpaid |
|---------------------------------|--------------------------|----------------------------|---------------------------|------------------|-------------------------------|
| \$ 438,000 | \$ - | \$ 42,000 | \$ 396,000 | \$ 13,359 | \$ - |
| 262,000 | - | 26,000 | 236,000 | 8,515 | - |
| - | 725,000 | - | 725,000 | - | - |
| 700,000 | 725,000 | 68,000 | 1,357,000 | 21,874 | - |
| 195,000 | | 19,000 | 176,000 | 6,338 | - |
| 201,000 | - | 19,000 | 182,000 | 8,040 | - |

See accompanying independent auditor's report.

City of Lone Tree
Bond and Note Maturities
For the Year Ended June 30, 2010

| Year Ending June 30, | General Obligation Bonds | | | | | | Total |
|----------------------------|--------------------------|-----------|--------------------|-----------|-----------------------|------------|--------------|
| | Sewer Improvements | | Water Improvements | | Street Improvements | | |
| | Issued Mar 3, 1999 | | Issued Aug 7, 2003 | | Issued March 15, 2010 | | |
| | Interest Rates | Amount | Interest Rates | Amount | Interest Rates | Amount | |
| 2011 | 3.92% | 43,000 | 3.00% | 26,000 | 1.75% | 35,000 | 104,000 |
| 2012 | 3.92% | 45,000 | 3.00% | 27,000 | 1.75% | 40,000 | 112,000 |
| 2013 | 3.92% | 47,000 | 3.00% | 28,000 | 1.75% | 40,000 | 115,000 |
| 2014 | 3.92% | 48,000 | 3.00% | 29,000 | 2.60% | 40,000 | 117,000 |
| 2015 | 3.92% | 50,000 | 3.00% | 30,000 | 2.60% | 45,000 | 125,000 |
| 2016 | 3.92% | 52,000 | 3.00% | 31,000 | 2.60% | 45,000 | 128,000 |
| 2017 | 3.92% | 54,000 | 3.00% | 32,000 | 3.60% | 45,000 | 131,000 |
| 2018 | 3.92% | 57,000 | 3.00% | 33,000 | 3.60% | 45,000 | 135,000 |
| 2019 | | - | | - | 3.60% | 50,000 | 50,000 |
| 2020 | | - | | - | 4.50% | 50,000 | 50,000 |
| 2021-2025 | | - | | - | 4.50% | 290,000 | 290,000 |
| Total | | \$396,000 | | \$236,000 | | \$ 725,000 | \$ 1,357,000 |

| Year Ending June 30, | Revenue Notes | | Bank Loans | |
|----------------------------|--------------------|------------------|--------------------|------------------|
| | Water | | Street/Storm Sewer | |
| | Issued Aug 7, 2003 | | Issued Oct 6, 2003 | |
| | Interest Rates | Amount | Interest Rates | Amount |
| 2011 | 3.00% | 20,000 | 4.00% | 20,000 |
| 2012 | 3.00% | 20,000 | 4.00% | 21,000 |
| 2013 | 3.00% | 21,000 | 4.00% | 21,000 |
| 2014 | 3.00% | 22,000 | 4.00% | 22,000 |
| 2015 | 3.00% | 22,000 | 4.00% | 23,000 |
| 2016 | 3.00% | 23,000 | 4.00% | 24,000 |
| 2017 | 3.00% | 24,000 | 4.00% | 25,000 |
| 2018 | 3.00% | 24,000 | 4.00% | 26,000 |
| 2019 | - | - | - | - |
| 2020 | - | - | - | - |
| 2021-2025 | - | - | - | - |
| Total | | <u>\$176,000</u> | | <u>\$182,000</u> |

See accompanying independent auditor's report.

Ann M. Menke

**Certified Public Accountant
A Professional Corporation**

Independent Auditor's Report on Internal Control
over Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance
with Government Auditing Standards

To the Honorable Mayor and
Members of the City Council
Lone Tree, Iowa

I have audited the accompanying financial statements of the governmental activities, business type activities, each major fund and the aggregate remaining fund information of the City of Lone Tree, Iowa, as of and for the year ended June 30, 2010, which collectively comprise the City's basic financial statements listed in the table of contents and have issued my report thereon dated March 1, 2011. My report expressed qualified opinions on the financial statements which were prepared in conformity with an other comprehensive basis of accounting since I was unable to satisfy myself as to the distribution by fund of the total fund balance at July 1, 2009. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered Lone Tree's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing my opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Lone Tree's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings, I identified certain deficiencies in internal control over financial reporting I consider to be material weaknesses and other deficiencies I consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the City of Lone Tree's financial statement will not be prevented or detected and corrected in a timely basis.

I consider the deficiencies described in Part I of the accompanying Schedule of Findings as items 2010-I-A and 2010-I-B to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. I consider the deficiencies described in Part I of the accompanying Schedule of Findings as items 2010-I-C, 2010-I-D, 2010-I-E and 2010-I-F to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Lone Tree's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, I noted certain immaterial instances of non-compliance or other matters that are described in the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2010 are based exclusively on knowledge obtained from procedures performed during my audit of the financial statements of the City. Since my audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

The City of Lone Tree responses to finding identified in my audit are described in the accompanying Schedule of Findings. While I have expressed my conclusions on the City's responses, I did not audit the City of Lone Tree's responses and accordingly, I express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees, and citizens of the City of Lone Tree and other parties to whom the City of Lone Tree may report including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

I would like to acknowledge the many courtesies and assistance extended to me by personnel of the City of Lone Tree during the course of my audit. Should you have any questions concerning any of the above matters, I shall be pleased to discuss them with you at your convenience.

Sincerely,



Ann M. Menke
Certified Public Accountant
Professional Corporation
March 1, 2011

City of Lone Tree
Schedule of Findings
For the Year Ended June 30, 2010

Part I: Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

2010-I-A

Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. When duties are properly segregated, the activities of one employee act as a check on those of another. Generally, one person has control over each of the following areas for the City:

1. Accounting system – performing all general accounting functions and custody of assets.
2. Cash – preparing bank account reconciliations, initiating cash receipts and disbursement functions and handling and recording cash.
3. Investments – detailed record keeping, custody of investments and reconciling earnings.
4. Long term debt – recording and reconciling.
5. Receipts – collecting, depositing, journalizing, reconciling, and posting.
6. Utility receipts – billing, collecting, depositing, and posting.
7. Disbursements – check writing, reconciling, and posting.
8. Payroll – preparation, distribution, and posting.
9. Financial reporting – preparing, reconciling, and distributing.

Recommendation – I realize that with a limited number of office employees, segregation of duties is difficult. However, the City should continue to review its control procedures to obtain the maximum internal control possible under the circumstances utilizing currently available personnel. Evidence of independent reviews should be indicated by initials of the independent reviewer.

Response – We will consider this.

Conclusion – Response accepted.

2010-I-B

Reconciliation of Utility Billings, Collections and Delinquencies – Utility billings, collections and delinquent accounts were not reconciled throughout the year. Also, utility collections were not reconciled to deposits.

Recommendation – Procedures should be established to reconcile utility billings, collections and delinquencies for each billing period and to reconcile collections to deposits. The Council or a Council-designated independent person should review the reconciliations and monitor delinquencies.

Response – These procedures will be implemented as recommended.

Conclusion – Response accepted.

**City of Lone Tree
Schedule of Findings
For the Year Ended June 30, 2010**

Part I: Findings Related to the Financial Statements:

REPORTABLE CONDITIONS: (Continued)

2010-I-C

Utility Delinquencies – The City has not been maintaining a delinquent account listing.

Recommendation – The delinquent account listing should be prepared each month. The Council or a Council-designated independent person should monitor delinquencies.

Response – These procedures will be implemented as recommended.

Conclusion – Response accepted.

2010-I-D

Countersignature of Checks – Checks are signed only by the Clerk/Treasurer, who has almost complete control over the accounting system of the City.

Recommendation – Checks should be prepared and signed by one individual and then the supporting documentation should be made available, along with the check, to a second independent individual for review and countersignature.

Response – We will review our procedures.

Conclusion – Response accepted.

2010-I-E

Compliance Issues – The City Code of Ordinances have not been added to since 2008. Chapter 380.8 of the Code of Iowa requires that the Code of Ordinances supplement be compiled at least annually.

Recommendation – The City should compile the Code of Ordinances supplement as required by the Code of Iowa.

Response – We will implement the above to the best of our ability.

Conclusion – Response accepted.

**City of Lone Tree
Schedule of Findings
For the Year Ended June 30, 2010**

2010-I-F

Written Accounting Procedures Manual – We encourage the development of office procedures and standardized accounting manual for the City's financial accounting system. This written manual should provide the following benefits:

- (1) Aid in training additional or replacement staff.
- (2) Help achieve uniformity in accounting and in the application of policies and procedures.
- (3) Save supervisory time by recording decisions so they will not have to be made each time the same, or a similar, situation arises.
- (4) Ensure City accounts are appropriately utilized.

Recommendation – A written office procedures and standardized accounting manual should be prepared.

Response – The City is in the process of developing this manual.

Conclusion – Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

City of Lone Tree
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2010

Part II: Other Findings Related to Statutory Reporting:

2010-II-A

Certified Budget – Disbursements during the year ended June 30, 2010, exceeded the amounts budgeted in the public safety and public works functions. Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered except under an annual or continuing appropriation.

Recommendation – The budget should have been amended in accordance with Chapter 384.20 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response – The budget will be amended in the future, if applicable.

Conclusion – Response accepted.

2010-II-B

Questionable Disbursements – No expenditures for parties, banquets, or other entertainment for employees were noted that we believe may constitute an unlawful expenditure from public funds as defined in an Attorney General's opinion dated April 25, 1979.

2010-II-C

Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

2010-II-D

Business Transactions – No business transactions between the City and City officials or employees were noted.

2010-II-E

Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

2010-II-F

Deposits and Investments – No instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy were noted.

City of Lone Tree
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2010

Part IV Other Findings Related to Statutory Reporting: (Continued)

2010-II-G

Council Meetings – The approved purchase price of a truck was not listed in the Council minutes. We could not determine the vote of each member present; items passed were noted as carried.

Recommendation – Each members vote should be noted in the minutes. The City should also comply with Chapter 21 of the Code of Iowa.

Response – City minutes will show approval of purchase amounts and each members vote will be noted in the minutes. We will comply with Chapter 21 of the Code of Iowa.

Conclusion – Response accepted.

2010-II-H

Revenue Bonds/Notes – The City is in compliance with all requirements of the revenue bond and note resolutions.

2010-II-I

General Obligation Bonds and Notes – The City has complied with all requirements of the general obligation bonds and notes.

2010-II-J

Electronic Check Retention – Chapter 554D.114 of the Code of Iowa allows the City to retain cancelled checks in an electronic format and requires retention in this manner to include an image of both the front and back of each cancelled check. The City retains cancelled checks through electronic image, but does not obtain an image of the back of each cancelled check as required.

Recommendation – The City should obtain and retain an image of both the front and back of each cancelled check as required.

Response – We will contact our banks about printing both sides of the checks from now on.

Conclusion – Response accepted.

City of Lone Tree

Audit Staff

The audit was performed by:

Ann M. Menke, CPA

Carol Ross, CPA

Betty Thomas, CPA

Kristy Adams, Staff Auditor